February 14, 2013

Support the "Balanced Approach to Deficit Reduction Act"

We must avoid sequestration and its meat-ax approach to deficit reduction.

- Sequestration was included in the Budget Control Act as a deficit reduction mechanism that was so bad that it would encourage a fair and balanced, bipartisan agreement. While we support policy-based spending cuts as part of a balanced approach to deficit reduction, it is a big mistake to allow sequestration to make arbitrary and harmful cuts across-the-board.

"Balanced Approach to Deficit Reduction Act" replaces the looming sequester.

- Rep. Van Hollen's bill eliminates the sequester for calendar year 2013 entirely while reducing the deficit by more than the amount of the scheduled across-the-board spending cuts. It makes specific policy choices that reduce the deficit in a balanced way, with a mix of spending cuts and revenue increases.
- The bill also calls for a balanced solution to stop the full multi-year sequester.

Every bipartisan group considering our fiscal difficulties has recommended a balanced approach to deficit reduction.

- Every bipartisan commission has recommended – and the majority of Americans agree – that we should take a balanced, bipartisan approach to reducing the deficit that increases revenue and decreases spending.
- However, Republicans insist that revenue increases are off the table for further deficit reduction. Instead, they have pushed for a lopsided approach that increases the tax burden on middle-income Americans, shreds the social safety net for vulnerable Americans, and fails to protect Medicare or student loans from sequester for even one year.

Van Hollen bill takes a balanced approach to deficit reduction in the long term.

The Balanced Approach to Deficit Reduction Act calls for replacing sequestration for all scheduled years with balanced, bipartisan approach that:

- Reduces the deficit through both increasing revenues and decreasing spending,
- does not increase the tax burden on middle-income Americans,
- promotes economic growth while achieving deficit reduction, and
- maintains the Medicare guarantee and the social safety net for vulnerable Americans.

Van Hollen bill takes a fair and balanced approach for 2013.

- This bill contains specific policy choices – a mixture of spending cuts and revenue increases – to replace the sequester for calendar year 2013. The savings include the following:

1. **Repeal Subsidies to Big Oil and Gas Companies** – In a time of record oil profits and rising prices at the pump, this bill repeals, starting next year, several costly tax incentives that subsidize the "Big 5" major integrated oil companies (e.g., Exxon-Mobil, Chevron, Shell, BP, and Conoco-Phillips) to do what they would do in any case: produce oil. These subsidies are:
   a. <u>Section 199 deduction</u> for domestic production activities, meant to subsidize the beleaguered manufacturing sector, but which has inadvertently been subsidizing highly lucrative oil production;
   b. <u>"Last-In, First Out" (LIFO)</u> method of inventory accounting that lets oil companies deduct the cost of oil most recently added to inventories (which costs the most when oil prices are rising) from their taxable income; and
   c. <u>"Dual capacity taxpayer" rules</u> that create a subsidy for foreign oil production by allowing oil companies to claim foreign tax credits against royalties paid to foreign governments for the right to extract oil (e.g., a cost of doing business for which a tax deduction rather than a tax credit is more appropriate).

2. **Implement a "Buffett Rule"** – Billionaire investor Warren Buffett has observed that he pays a lower effective tax rate than his secretary because he receives the bulk of his income in the form of capital gains, which enjoy preferential tax treatment. The Buffett Rule is meant to ensure that middle class families will not confront higher effective tax rates than the wealthy. Starting in 2014, the bill would impose a minimum effective tax rate of 30 percent on adjusted gross incomes above $2 million (and to be phased in for taxpayers with AGI between $1 million and $2 million).

3. **Refocus farm subsidies** – The agriculture safety net must be better targeted, while continuing to help farmers effectively manage risk. Direct payments – made regardless of yields, prices, farm income or size – are difficult to defend in times of record crop yields and prices.